

CITY OF BELL

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2010, through June 30, 2013

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2010, through June 30, 2011

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2010, through June 30, 2013



JOHN CHIANG
California State Controller

August 2014



JOHN CHIANG
California State Controller

August 13, 2014

The Honorable Nestor E. Valencia
Mayor of the City of Bell
6330 Pine Avenue
Bell, CA 90201

Dear Mayor Valencia:

The State Controller's Office audited the City of Bell's Special Gas Tax Street Improvement Fund for the period of July 1, 2010, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2010, through June 30, 2011, as well as the Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2010, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that it understated the fund balance by \$523,653 as of June 30, 2013. The city understated the fund balance because it did not record a prior SCO audit adjustment of \$1,593; recorded unsupported general maintenance charges of \$341,100; recorded unsupported costs of \$117,379 for street sweeping services without a written contract, and recorded unsupported costs of \$63,581 for payment of engineering charges without a written contract.

Our audit also found that the city did not expend its fiscal year 2009-10 TCRF allocations by the end of June 30, 2011, as required by Streets and Highway Code section 2182.1(g), and Revenue and Taxation Code section 7104. The unexpended amount is \$318,737.

Our audit found that the city accounted for and expended its Proposition 1B Fund allocations, recorded in the Special Gas Tax Improvement Fund, in compliance with Government Code section 8879.23 for the period of July 2010 through June 30, 2013.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

The Honorable Nestor E. Valencia

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August 13, 2014

cc: Doug Willmore, City Manager
City of Bell
Josh Betta, Finance Director
City of Bell

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Audit Report

Summary

The State Controller's Office audited the City of Bell's Special Gas Tax Street Improvement Fund for the period of July 1, 2010, through June 30, 2013. We also audited the Traffic Congestion Relief Fund (TCRF) allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2010, through June 30, 2011, as well as the Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, for the period of July 1, 2010, through June 30, 2013.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, except that the city understated the fund balance by \$523,653 as of June 30, 2013. The city understated the fund balance because it did not record a prior SCO audit adjustment of \$1,593, recorded unsupported general maintenance charges of \$341,100, recorded unsupported costs of \$117,379 for street sweeping services without a written contract, and recorded unsupported costs of \$63,581 for payment of engineering charges without a written contract.

Our audit also found that the city did not expend its fiscal year (FY) 2009-10 TCRF allocations by the end of June 30, 2011, as required by Streets and Highway Code section 2182.1(g), and Revenue and Taxation Code section 7104. The unexpended amount is \$318,737.

Our audit found that the city accounted for and expended its Proposition 1B Fund allocations, recorded in the Special Gas Tax Improvement Fund, in compliance with Government Code section 8879.23 for the period of July 2010 through June 30, 2013.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF

allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The city recorded its Proposition 1B Fund allocations in the Special Gas Tax Improvement Fund. A city also is required to expend its allocations within three years following the end of the fiscal year which the allocation was made and to expend the funds in compliance with Government Code section 8879.23. We conducted our audit of the city's Proposition 1B Fund allocations under the authority of Government Code Section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the TCRF allocations, as well as the Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, in accordance with the requirements of the Streets and Highways Code, and Revenue and Taxation Code section 7104, and Government Code section 8879.23. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of Bell accounted for and expended its Special Gas Tax Street Improvement Fund, Proposition 1B Fund allocations, and TCRF allocations in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2010, through June 30, 2013, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The findings require an adjustment of \$523,653 to the city's accounting records.

Our audit also found that the city accounted for and expended its TCRF allocations, recorded in the Special Gas Tax Street Improvement Fund, in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2010, through June 30, 2011, except as noted in Schedule 1 and described in the Findings and Recommendations section of this report. The finding requires the city to return \$318,737 to the State Controller's Office.

Our audit found that the city accounted for and expended its Proposition 1B Fund allocations, recorded in the Special Gas Tax Street Improvement Fund, in compliance with Government Code section 8879.23 for the period of July 1, 2000, through June 30, 2013.

**Follow-Up on Prior
Audit Findings**

The city satisfactorily resolved the findings noted in our prior audit report, issued on October 20, 2010, except for Finding 1. The city did not include the State Controller's Office (SCO) prior period adjustment (FY 2009-10) of \$1,593 in its accounting records.

**Views of
Responsible
Official**

We issued a draft audit report on June 23, 2014. Josh Betta, Finance Director, responded by telephone on July 23, 2014, agreeing with the audit results.

Restricted Use

This report is intended for the information and use of the City of Bell's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 13, 2014

Schedule 1— Reconciliation of Fund Balance July 1, 2012, through June 30, 2013

	Special Gas Tax Street Improvement Fund			
	Highway Users Tax Allocation ¹	TCRF Allocations ²	Proposition 1B Allocations ³	Totals
Beginning fund balance per city	\$ 2,267,972	\$ 318,737	\$ 455,689	\$ 3,042,398
Revenues	880,399	—	—	880,399
Total funds available	3,148,371	318,737	455,689	3,922,797
Expenditures	(560,369)	—	(411,135)	(971,504)
Ending fund balance per city	2,588,002	318,737	44,554	2,951,293
SCO adjustments: ⁴				
Finding 1—Prior SCO Audit Adjustment FY 2009-10	1,593	—	—	1,593
Finding 2—Unsupported General Maintenance Charges	341,100	—	—	341,100
Finding 3—Unsupported Street Sweeping Services	117,379	—	—	117,379
Finding 4—Unsupported Engineering Services	63,581	—	—	63,581
Finding 5—TCRF expenditure requirement not met	—	(318,737)	—	(318,737)
Total SCO adjustments	523,653	(318,737)	—	204,916
Ending fund balance per audit	\$ 3,111,655	\$ —	\$ 44,554	\$ 3,156,209

¹ The city receives apportionments from the State highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2011, through June 30, 2013; however, this schedule includes only the period of July 1, 2012, through June 30, 2013.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2010, through June 30, 2011.

³ Senate Bill 1266, Highway Safety Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2010, through June 30, 2013.

⁴ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unrecorded prior SCO audit adjustment

The city did not record \$1,593 of the total audit adjustments noted in the prior SCO gas tax audit report dated October 20, 2010.

Recommendation:

The city should record an additional \$1,593 in the Special Gas Tax Street Improvement Fund (Gas Tax Fund) to reflect all of the prior State Controller's Office gas tax audit adjustments. In addition, the city should review and/or revise policies and procedures to ensure that all future adjusting entries are completely recorded.

City's Response

The city agreed with the finding and recommendation.

FINDING 2— Unsupported general maintenance charges

The City of Bell had a written contract with Medina Construction for general maintenance services including street work, and was billed \$18,000 a month for the audit period of July 1, 2010 through August 31, 2011. The city allocated 85%, or \$15,300 of the monthly billings to the Gas Tax Fund #04, and 15% to the Sewer Fund #09, but did not provide support for the allocation basis.

Based on our review and analysis, only 70% of general maintenance, instead of 85%, or \$12,600, was street related. The same 70% should apply for general maintenance charges for FY 2010-11, FY 2011-12, and FY 2012-13. Therefore in FY 2010-11, the city overcharged the gas tax fund by 15% for public works general maintenance, which totaled \$32,400. The Medina Construction contract expired on August 31, 2011, when only two months' of general maintenance charges were applicable to the overcharged amount, which totaled \$10,800. Moreover, the general maintenance charges are unallowable for the remaining ten months because the city did not have a contract with Medina Construction. In FY 2012-13, the city did not have a contract with Medina Construction, therefore, the total general maintenance charges are unallowable, totaling \$136,800. Without a valid contract, all payments are ineligible charges against the Gas Tax Fund. For the audit period, the total ineligible amount is \$341,100, which consists of overcharges and unallowable costs because the city did not have contracts.

The unallowable charges for the audit period are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010-11	\$ 32,400
2011-12	171,900
2012-13	136,800
Total	<u>\$ 341,100</u>

California Streets and Highways Code section 2101 specifies that highway users tax funds are to be used for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for motorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation

The city must reimburse the Gas Tax Fund \$341,100 for costs charged in excess of general maintenance services relating to streets and for payments made for general maintenance services without a written contract. Additionally, the city should ensure that only street-related costs are charged to the Gas Tax Fund and that expired contracts are renewed and/or amended.

City's Response

The city agreed with the finding and recommendation.

FINDING 3— Unsupported street sweeping services

The city did not have a contract with Graffiti Protective Coatings for street sweeping services for FY 2010-11, FY 2011-12, and FY 2012-13. The city has been making payments for street sweeping services without a written contract. A review of the city's invoices indicated that the street sweeping charges were \$13,000 a month, of which 34.98% was charged to the Gas Tax Fund. Without a valid contract, all payments are ineligible charges against the Gas Tax Fund. The amount charged during the audit period totaled \$117,379.

The unallowable charges for the audit period are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010-11	\$ 53,715
2011-12	54,569
2012-13	<u>9,095</u>
Total	<u>\$ 117,379</u>

California Streets and Highways code section 2101 specifies that highway users tax funds are to be used for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for motorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation:

The city must reimburse the Gas Tax Fund \$117,379 for payments for street sweeping services without a written contract. Additionally, the city should ensure that it has written contracts for street sweeping costs charged to the Gas Tax Fund.

City's Response

The city agreed with the finding and recommendation.

**FINDING 4—
Unsupported
engineering services**

The city did not have a written contract with D & J Engineering for engineering services, for FY 2011-12. The city did not negotiate a new contract or amend the existing contract. Without a valid contract, all engineering services charged to the Gas Tax Fund are ineligible to be paid with gas tax funds. The amount charged during the audit period totaled \$63,581.

California Streets and Highways code section 2101 specifies that highway users tax funds are to be used for: the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for motorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes. Additionally, costs are allowable under this section only when they are properly documented and supported.

Recommendation:

The city must reimburse \$63,581 to the Gas Tax Fund for payments for engineering services without a written contract. Additionally, the city should ensure that it has written contracts for engineering services charged to the Gas Tax Fund.

City's Response

The city agreed with the finding and recommendation.

**FINDING 5—
Traffic Congestion
Relief Fund (TCRF)
expenditure
requirement not met**

The city did not spend its FY 2009-10 TCRF allocation, totaling \$350,772, by June 30, 2011, as required by Streets and Highways Code section 2182.1(g). This code section requires a city to expend its TCRF allocation within the fiscal year following the fiscal year in which allocation was made. In addition, the code indicates that funds not expended within that period shall be returned to the State Controller's Office. Our audit found that \$318,737 of the FY 2009-10 allocation remained unexpended as of June 30, 2011.

Recommendation

The city must return the TCRF allocation, in the amount of \$318,737, to the State Controller's Office, ATTN: Rhodora Bravo, P.O. Box 942850, Sacramento, CA 94250.

City's Response

The city agreed with the finding and recommendation.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>